



GOV. MSG. NO. **506**

EXECUTIVE CHAMBERS
HONOLULU

LINDA LINGLE
GOVERNOR

April 22, 2010

The Honorable Colleen Hanabusa, President
and Members of the Senate
Twenty-Fifth State Legislature
State Capitol, Room 409
Honolulu, Hawaii 96813

Dear Madam President and Members of the Senate:

I am transmitting herewith SB2501 SD1 HD1, without my approval, and with the statement of objections relating to the measure.

SB2501 SD1 HD1

A BILL FOR AN ACT
RELATING TO PUBLIC ACCOUNTANCY.

Sincerely,

A handwritten signature in black ink, appearing to read "L. Lingle".

LINDA LINGLE

EXECUTIVE CHAMBERS

HONOLULU

April 22, 2010

STATEMENT OF OBJECTIONS TO SENATE BILL NO. 2501

Honorable Members
Twenty-Fifth Legislature
State of Hawaii

Pursuant to Section 16 of Article III of the Constitution of the State of Hawaii, I am returning herewith, without my approval, Senate Bill No. 2501, entitled "A Bill for an Act Relating to Public Accountancy."

The purpose of this bill is to require accounting firms that engage in attestation work to undergo peer review as a condition of obtaining a permit to practice in Hawaii. Specifically, the bill mandates that every accounting firm, including the Hawaii offices and Hawaii engagements of foreign or multi-state firms, undergo a peer review every three years on the firm's Hawaii audit, compilation of financial statements, government, and public company work and submit evidence of such a peer review at the time of the renewal of the firm's permit to practice.

Appropriately conducted peer reviews ensure the quality of work prepared by certified public accounts and help protect the interests of the public who rely on the financial statements, audits and similar work prepared by these firms.

However, this bill is objectionable because it would mandate office-specific peer reviews that may not be consistent with current peer review standards set forth by the American Institute of Certified Public Accountants. Many multi-state and multinational firms practicing in Hawaii already participate in nationally recognized systems of peer review that include the engagements and work these firms do in our State.

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SENATE BILL NO. 2501
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No other state mandates office-specific reviews. Further, the proposed requirements in this bill would place a significant burden on the Hawaii Board of Public Accountancy that would be required to establish and administer a stand-alone peer review program not required elsewhere.

The additional requirement of office-specific peer reviews may discourage some firms from engaging in assignments in Hawaii, thereby limiting the choice of public accounting firms Hawaii companies can select when seeking accounting services. Additionally, small, local firms that have elected to not undergo voluntary peer review would now be mandated to assume the costs of going through this process in order to conduct attestation-type accounting activities.

For the foregoing reason, I am returning Senate Bill No. 2501 without my approval.

Respectfully,

A handwritten signature in black ink, appearing to read 'L. Lingle', is written over the printed name.

LINDA LINGLE
Governor of Hawaii

A BILL FOR AN ACT

RELATING TO PUBLIC ACCOUNTANCY.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

1 SECTION 1. The purpose of this Act is to:

2 (1) Provide a mechanism for firms engaged in the practice
3 of public accounting to undergo peer review on a
4 regular basis; and

5 (2) Grant the state board of public accountancy
6 appropriate power to regulate the peer review process.

7 SECTION 2. Section 466-3, Hawaii Revised Statutes, is
8 amended as follows:

9 1. By adding two new definitions to be appropriately
10 inserted and to read:

11 "Attest" means providing the following financial statement
12 services:

13 (1) Any audit or other engagement to be performed in
14 accordance with the statements on auditing standards
15 of the American Institute of Certified Public
16 Accountants;

17 (2) Any compilation or review of a financial statement to
18 be performed in accordance with the statements on



1 3. By deleting the definition of "quality review."

2 [~~"Quality review" means a study, appraisal, or review of~~
3 ~~one or more aspects of the professional work of a firm in the~~
4 ~~practice of public accountancy by a person or persons who hold~~
5 ~~certificates and who are not affiliated with the firm being~~
6 ~~reviewed."~~]

7 SECTION 3. Section 466-7, Hawaii Revised Statutes, is
8 amended by amending subsection (b) to read as follows:

9 "(b) An applicant for the initial issuance or renewal of a
10 permit shall have:

11 (1) A valid license;

12 (2) Completed continuing professional education hours, the
13 content of which shall be specified by the board which
14 may provide for special consideration by the board to
15 applicants for permit renewal when, in the judgment of
16 the board, full compliance with all requirements of
17 continuing education cannot reasonably be met;

18 (3) Completed an application; ~~and~~

19 (4) Paid appropriate fees and assessments~~[-]~~; and

20 (5) Undergone any applicable peer review process approved
21 by the board of accountancy pursuant to section 466-

22 13."



1 2. By amending subsection (c) to read:

2 "(c) Upon application of any person against whom
3 disciplinary action has been taken under subsection (a), the
4 board, in accordance with chapter 91, may reinstate the person's
5 license or permit to practice which was affected by the
6 disciplinary action.

7 (1) The board shall specify the manner in which an
8 application shall be made, the time within which it
9 shall be made, and the circumstances under which the
10 license may be reinstated; and

11 (2) Before reinstating, the board may:

12 (A) Require the applicant to show successful
13 completion of specified continuing professional
14 education; and

15 (B) Make the reinstatement of a license or permit
16 conditional and subject to satisfactory
17 completion of a ~~[quality]~~ peer review conducted
18 in a manner as the board may specify."

19 SECTION 5. Section 466-13, Hawaii Revised Statutes, is
20 amended to read as follows:

21 "~~S466-13~~ ~~[Quality]~~ Peer review ~~[committee]~~. (a) Every
22 firm, including the Hawaii offices and Hawaii engagements of



1 peer review services to both members and nonmembers. If the
2 board chooses to authorize a third party entity to administer
3 peer reviews, the third party shall be held to the highest
4 standards of professionalism, quality, and ethics.

5 (d) The board shall adopt rules pursuant to chapter 91 to
6 establish requirements and procedures for the qualification of
7 entities to conduct peer reviews and for the performance of peer
8 reviews by these entities. The rules shall include:

9 (1) A process for the conduct of peer review to be
10 followed by the board and by an authorized third party
11 entity;

12 (2) Definitions, standards, and requirements for an
13 acceptable peer review;

14 (3) Standards for certification and qualification of peer
15 reviewers;

16 (4) A process for a firm to appeal the findings or
17 conclusions of any peer review process that results in
18 the denial, termination, or nonrenewal of a firm
19 permit pursuant to section 466-9; provided that the
20 appeal process shall include the postponement of any
21 adverse action during the pendency of the appeal; and



1 (2) Report the adoption of the rules under paragraph (1)
2 to the legislature immediately upon adoption of those
3 rules by means of written notice to the speaker of the
4 house of representatives and the president of the
5 senate.

6 SECTION 8. Statutory material to be repealed is bracketed
7 and stricken. New statutory material is underscored.

8 SECTION 9. This Act shall take effect upon its approval;
9 provided that sections 2, 3, 4, and 5 shall take effect one year
10 after the board of public accountancy reports the adoption of
11 rules pursuant to section 7 of this Act.

